

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06  
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 /102 W  
-----114080 281828Z /46

R 281714Z JUN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 9405  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JUNE 27)

REF.: BONN 6019, BONN 9230, BONN 9060

1. BUNDESTAG APPROVES DM 171.3 BILLION FEDERAL BUDGET  
FOR 1977:  
THE 1977 FEDERAL BUDGET WHICH INCLUDES AMONG OTHER  
FEATURES 1977 EXPENDITURES OF DM 500 MILLION OF THE  
DM 16 BILLION MEDIUM TERM INVESTMENT PROGRAM WAS  
APPROVED BY THE BUNDESTAG ON JUNE 24. THE DRAFT  
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BUDGET, AS AMENDED BY COMMITTEE (SEE BONN 9230), WAS  
SUBSEQUENTLY FURTHER CHANGED IN THE LEGISLATIVE PRO-  
CESS. FOREMOST AMONG THE RECENT CHANGES WERE INCLUSION  
OF AN ADDITIONAL DM 300 MILLION IN EXPENDITURES FOR  
JOB CREATION AND DM 1.3 BILLION IN OBLIGATIONAL AUTHO-  
RITY FOR SOCIAL HOUSING CONSTRUCTION, WHICH REFLECT  
RECENT CABINET DECISIONS TO CURB UNEMPLOYMENT AND HELP

THE AILING CONSTRUCTION INDUSTRY (SEE BONN 9060). THE BILL AS IT NOW STANDS PROVIDES FOR EXPENDITURES OF DM 171.3 BILLION, UP 5.9 PERCENT OVER ACTUAL 1976 OUTLAYS. THE DEFICIT IS NOW BUDGETED AT DM 20.7 BILLION, WHICH COMPARES WITH THE DM 25.8 BILLION DEFICIT INCURRED IN 1976. THE BUNDESTAG-APPROVED FEDERAL BUDGET STILL FACES DELIBERATIONS IN THE BUNDESRAT, SCHEDULED FOR JULY 15. HOWEVER, BUNDESRAT APPROVAL IS NOT REQUIRED AND THE BILL IS VIRTUALLY CERTAIN TO BE SIGNED INTO LAW AS IS.

2. CENTRAL BANK MONEY:

IN MAY, CENTRAL BANK MONEY, SEASONALLY ADJUSTED, INCREASED BY DM 1.0 BILLION BRINGING THE TOTAL VOLUME UP TO DM 123.0 BILLION. IN APRIL CENTRAL BANK MONEY DECLINED BY DM 0.5 BILLION FOLLOWING A DM 0.4 BILLION INCREASE IN MARCH. IN THE PERIOD JANUARY/MAY CENTRAL BANK MONEY WAS 8.57 PERCENT HIGHER THAN IN THE SAME PERIOD A YEAR AGO. HOWEVER, SINCE THE GROWTH OF CENTRAL BANK MONEY ACCELERATED IN THE SECOND HALF OF LAST YEAR THE GROWTH RATE OF CENTRAL BANK MONEY MUST INCREASE SOMEWHAT IN THE REMAINDER OF 1977 TO MEET THE BUNDESBANK'S 8 PERCENT (AVERAGE 1977 OVER AVERAGE 1976) GROWTH GOAL FOR 1977.

3. CDU/CSU TAX RELIEF PROPOSAL:

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NOW THAT THE BUNDESTAG HAS APPROVED THE GOVERNMENT'S SOFTENED 1977 TAX PACKAGE (SEE BONN 8965), THE CDU/CSU BUNDESTAG FACTION HAS SUBMITTED TAX PROPOSALS OF ITS OWN. IN CONTRAST TO THE GOVERNMENT'S PACKAGE, THE OPPOSITION'S DRAFT LEGISLATION DOES NOT PROVIDE FOR A TVA INCREASE. THE TAX RELIEF PROPOSED IN THE BILL IS ALMOST IDENTICAL TO THAT CONTAINED IN THE GOVERNMENT'S DRAFT. THE MAJOR DEPARTURE IS STIPULATION OF AN INCREASE FROM DM 100 TO DM 200 IN EXEMPTIONS FOR EMPLOYER-PAID CHRISTMAS BONUSES FOR EMPLOYEES WHICH, IT IS ESTIMATED, WOULD COST THE PUBLIC SECTOR AN ADDITIONAL DM 700 MILLION IN REVENUE LOSSES PER ANNUM. THE CDU/CSU BILL DOES NOT STAND A CHANCE FOR PASSAGE BY THE BUNDESTAG BUT IF IT WERE ENDORSED BY THE BUNDESRAT COULD LAY THE BASIS FOR SENDING THE WHOLE TAX LEGISLATION TO THE BUNDESTAG/BUNDESRAT CONFERENCE COMMITTEE. THE BUNDESRAT

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STR-04 CEA-01 /102 W

-----114192 281824Z /46

R 281714Z JUN 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9406

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

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IS SCHEDULED TO DEAL WITH THE GOVERNMENT TAX PACKAGE  
ON EITHER JULY 8 OR JULY 15 AND THE COALITION PARTIES  
HOPE THAT BY THAT TIME FINANCE MINISTER APEL WILL HAVE  
REACHED A COMPROMISE WITH THE LAENDER IN THE SPLIT-UP  
OF TAX REVENUES AND THUS FACILITATE BUNDESRAT APPROVAL  
OF THE GOVERNMENT'S TAX PROPOSALS.

4. KIEL RESEARCH INSTITUTE PROJECTS 4 PERCENT REAL  
GROWTH FOR 1978:

IN ITS LATEST SEMI-ANNUAL REPORT, THE INSTITUTE FOR  
WORLD ECONOMICS IN KIEL FORECAST REAL GROWTH OF FRG  
GNP AT 4.5 PERCENT FOR THIS YEAR AND 4 PERCENT FOR  
1978. THE INDIVIDUAL COMPONENTS OF GNP ARE ESTIMATED  
TO DEVELOP AS FOLLOWS:

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PERCENT CHANGE FROM PRECEDING YEAR

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(IN CONSTANT - 1970 - PRICES)

1976 1977 1978

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PRIVATE CONSUMPTION	3.6	5	4
GOVERNMENT CONSUMPT.	2.6	2	2
INVESTMENT IN EQUIPM.	7.3	6	8
CONSTRUCTION	3.7	3	4
EXPORTS, GOODS AND			
SERVICES	11.8	8	10
IMPORTS, GOODS AND			
SERVICES	11.0	9	9
GNP	5.7	4.5	4.0

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GNP CONSUMER PRICE

DEFLATOR	4.4	4	4
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## 5. MONEY MARKET:

GERMAN CALL MONEY RATES INCREASED SLIGHTLY DURING THE PERIOD UNDER REVIEW EXCEEDING AT TIMES THE 4 1/2 PERCENT LOMBARD RATE. PAYMENTS FOR THE MAJOR MID-JUNE TAX DATE APPEAR TO HAVE REDUCED CONSIDERABLY BANKS RESERVES HELD AT THE BUNDESBANK. THUS BANKS PREPARING FOR END-OF-JUNE PAYMENTS (INCLUDING PAYMENTS FOR THE JUNE COUPON DATE) HAVE HAD TO REPLENISH THEIR LIQUID POSITION. ONE- AND THREE-MONTHS RATES REMAINED STABLE. FOR THE PERIOD JUNE 21-27, FRANKFURT INTER-BANK RATES WERE AS FOLLOWS:

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CALL MONEY ONE-MONTH THREE-MONTH

JUNE 21	4.3-4.5	4.15	4.25
22	4.4-4.6	4.15	4.25
23	4.3-4.5	4.15	4.25
24	4.4-4.6	4.15	4.25
27	4.5-4.7	4.15	4.25

## 6. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JUNE 8-15 THE BUNDESBANK'S NET FOREIGN POSITION REMAINED UNCHANGED AT DM 85.2 BILLION. GERMANY'S IMF GOLD TRANCHE POSITION DECLINED BY DM 29 MILLION, FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 13 MILLION AND FOREIGN LIABILITIES FELL BY ABOUT DM 20 MILLION.

BANK LIQUIDITY:

DURING THE SAME PERIOD BANKS WERE ABLE TO REDUCE THEIR

CENTRAL BANK INDEBTEDNESS BY DM 1.5 BILLION TO DM 16.3 BILLION. SPECIAL REDISCOUNT BORROWINGS DECLINED BY DM 0.1 BILLION TO ZERO, AND NORMAL REDISCOUNT BORROWINGS BY DM 1.4 BILLION TO DM 16.3 BILLION. LOMBARD BORROWINGS REMAINED NEGLIGIBLE. HOWEVER, THE BANKS WERE FORCED TO COUNTERBALANCE THIS BY REDUCING RESERVE HOLDINGS AT THE BUNDESBANK BY DM 2.8 BILLION. DESPITE THE REDUCTION, ON AVERAGE PER DAY THE BANKS' BUNDESBANK RESERVES STILL AMOUNTED TO DM 50.0 BILLION IN THE PERIOD JUNE 1-15. THIS IS WELL ABOVE ANTICIPATED JUNE RESERVE REQUIREMENTS.

A MAJOR FACTOR REDUCING BANK LIQUIDITY AS INDICATED IN PARA 4 ABOVE WERE FIRST PAYMENTS FOR THE MAJOR MID-JUNE TAX DATE WHICH INCREASED FEDERAL GOVERNMENT ASSETS HELD AT THE BUNDESBANK BY DM 0.5 BILLION TO DM 0.7 BILLION AND STATE GOVERNMENT ASSETS BY DM 2.1 BILLION TO DM 4.8 BILLION. AT THE SAME TIME THE FEDERAL GOVERNMENT

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-----114219 281822Z /46

R 281714Z JUN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 9407  
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AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
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REDUCED BORROWINGS FROM THE BUNDESBANK BY DM 0.3 BILLION TO ZERO. THE ABOVE-MENTIONED REDUCTION IN THE BUNDESBANK'S RESERVES HELD AT THE BUNDESBANK WAS THE ONLY MAJOR FACTOR INCREASING BANK LIQUIDITY. OTHER BASICALLY UNSPECIFIED FACTORS INCREASED LIQUIDITY BY DM 1.6 BILLION, NET.

8. FOREIGN EXCHANGE MARKET:

DURING THE REPORTING WEEK FRANKFURT SPOT AND DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS  
SPOT DOLLARS (IN PCT. PER ANNUM)  
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OPENING FIXING CLOSING ONE-MONTH THREE-MO.

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JUNE 21	2.3595	2.3602	2.3595	-1.8	-2.0
22	2.3575	2.3563	2.3550	-1.4	-1.9
23	2.3550	2.3548	2.3543	-1.8	-2.0
24	2.3550	2.3544	2.3550	-1.8	-2.0
27	2.3520	2.3511	2.3545	-1.8	-1.9
28	2.3535	2.3537	N.A.	N.A.	N.A.

9. REDUCTION IN INTEREST RATES FOR FEDERAL SAVINGS BONDS:

EFFECTIVE JULY 1 THE FEDERAL GOVERNMENT WILL REDUCE YIELDS ON FEDERAL SAVINGS BONDS. WHEN HELD TO MATURITY, THE AVERAGE YIELD ON NEWLY-ISSUED 6-YEAR BONDS WILL NOW BE 5.98 PERCENT (ANNUAL INTEREST PAYMENTS) AND 6.25 PERCENT FOR NEWLY-ISSUED 7-YEAR BONDS (ACCUMULATED INTEREST). EFFECTIVE JUNE 25 THE SALE OF BONDS CARRYING HIGHER YIELDS (6.25 PERCENT AND 6.60 PERCENT, RESPECTIVELY) WAS DISCONTINUED.

10. BOND MARKET:

THE MARKET FOR DOMESTIC BONDS WAS CALM PROBABLY PARTLY DUE TO THE BEGINNING OF THE VACATION SEASON. PRICES REMAINED BASICALLY UNCHANGED. ACCORDING TO

THE PRESS, AVERAGE CURRENT YIELDS OF OUTSTANDING  
DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE  
AS FOLLOWS:

REMAINING MATURITY

(YEARS) 1 3 5 6 8 10

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JUNE 24 4.70 5.50 6.05 6.30 6.55 6.70

JUNE 16 4.75 5.50 6.05 6.25 6.50 6.70

ON JULY 1 THE FEDERAL GOVERNMENT WILL OFFER A  
DM 900 MILLION LOAN (COUPON 6 1/2 PERCENT, ISSUE  
PRICE 99 3/4, MATURITY 10 YEARS, YIELD TO MATURITY  
6.53 PERCENT). THE LAST FEDERAL LOAN, A DM 700  
MILLION LOAN OF THE FEDERAL RAILWAYS, WAS OFFERED ON  
APRIL 28 (COUPON 6 1/2 PERCENT, ISSUE PRICE 100,  
MATURITY 12 YEARS, YIELD TO MATURITY 6.50 PERCENT).

11. FOREIGN DM BONDS:

ON THE MARKET FOR FOREIGN DM BONDS THE FOLLOWING  
ISSUES HAVE BEEN OFFERED:

COMPAGNIE FRANCAISE DES PRETOLES S.A. (CFP): DM 100  
MILLION, COUPON 6 1/2 PERCENT, ISSUE PRICE 100,  
MATURITY 7 YEARS;

AUSTRIAN KONTROLLBANK: DM 50 MILLION, 6 1/2 PERCENT,  
99 1/2, 7 YEARS;

ADELA INVESTMENT COMPANY, LUXEMBOURG: DM 20 MILLION  
(PRIVATE PLACEMENT), 7 1/4 PERCENT, 100, 5 YEARS);

AUTOPISTAS DEL MARE NOSTRUM (AUMAR), SPAIN: DM 100  
MILLION, 7 3/4 PERCENT, 100, 7 YEARS.

12. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

SEASONALLY ADJUSTED BUNDESBANK DATA  
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R 281714Z JUN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 9408  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
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AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

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JAN. FEB. MARCH APRIL  
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RETAIL SALES VOLUME	118	117	120	111
(1970 EQUALS 100)				
VOLUME OF TRADE				
(DM BILLION)				
EXPORTS	15.89	15.99	17.12	16.31
IMPORTS	14.36	14.12	14.84	14.15
BUILDING PERMITS FOR				
HOUSING UNITS				
(1970 EQUALS 100)	72	73	73	73

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FEB.	MARCH	APRIL	MAY
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## LIVING COSTS

(1970 EQUALS 100)	144.3	144.8	145.3	145.9
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## INDUSTRIAL PRODUCER

## PRICES

(1970 EQUALS 100)	143.1	143.4	143.8	144.1
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## AGRICULTURAL PRODUCER

## PRICES

(1970 EQUALS 100)	147.6	146.6	145.5	--
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## NON-SEASONALLY ADJUSTED

## BUNDESBANK DATA (1)

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MARCH 77	DEC. 76	PCT. CHANGE
(DM BILLION)		OVER MARCH 76
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BUSINESS LOANS	402.5	403.2	8.8
CONSUMER CREDITS	69.9	69.3	20.3
MORTGAGE DEBT	278.5	273.7	8.0

(1) REPORTED ONLY ON A QUARTERLY BASIS

THE BUNDESBANK ATTRIBUTED THE RELATIVELY LOW INCREASE IN CONSUMER CREDITS FROM DECEMBER 1976 TO MARCH 1977 TO THE FACT THAT AT THE BEGINNING OF THIS YEAR A SUBSTANTIAL AMOUNT OF SAVINGS SUBSIDIZED BY THE GOVERNMENT (AND BLOCKED FOR A PERIOD OF AT LEAST 6 YEARS) BECAME UNBLOCKED AND WAS PARTLY USED TO FINANCE CONSUMER SPENDING AND PARTLY TO REPAY OUTSTANDING UNCLASSIFIED

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## CONSUMER CREDITS.

ACCORDING TO PRELIMINARY DATA RELEASED BY THE FEDERAL AUTOMOBILE REGISTRATION AGENCY IN FLENSBURG, THE NUMBER OF NEWLY-LICENSED PASSENGER CARS (NON-SEASONALLY-ADJUSTED) CAME TO 252,815 IN MAY; THE RATE OF INCREASE OVER COMPARABLE 1976 LEVELS WAS 13.9 PERCENT IN MARCH, 2.2 PERCENT IN APRIL AND 11.1 PERCENT IN MAY.

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## Message Attributes

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**Copy:** SINGLE  
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**Disposition Approved on Date:**  
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**To:** STATE TRSY  
**Type:** TE  
**vdkgvkey:** odb://SAS/SAS.dbo.SAS\_Docs/f1239e73-c288-dd11-92da-001cc4696bcc  
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